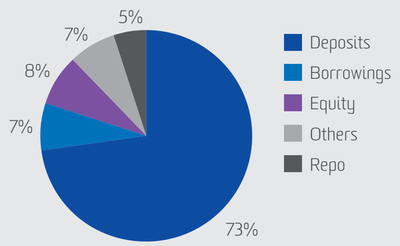
Risk Management Review

At Nations Trust Bank, the sustainable creation of stakeholder value is underpinned by robust risk management framework and practices which has evolved over the years to become deeply embedded in our culture.

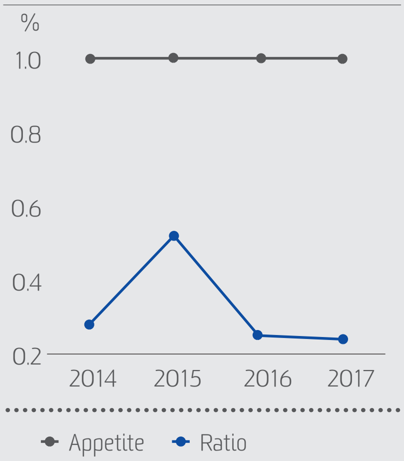
In response to emerging risk trends, regulatory change and an increasingly dynamic business environment, Bank has focused on proactively strengthening its integrated risk management framework, allowing the Bank to be resilient through business cycles. This report provides a concise yet comprehensive understanding of the integrated risk management framework in place within the Bank and key aspects of our risk performance during the year.

Impairment Trends

Funding Composition



Operational Losses to Operating Expenses Ratio



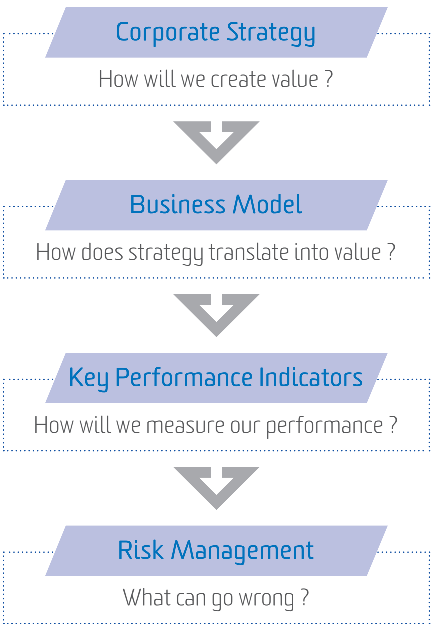
External factors affecting the Bank's risk profile

During the year under review, the following external drivers had an impact on the Bank's overall risk profile,

Macro-economic conditions	The moderate expansion of the country's Industrial and Services sector provided opportunities for growth, while the disappointing performance of the Agriculture Sector somewhat affected our agriculture related lending book.
Regulatory changes	• Implementation of Basel III • Parallel reporting for Liquidity Coverage Ratio and Net Stable Funding Ratios • New Foreign Exchange Act • IFRS 9 implementation
Government policy	A relatively tight monetary policy stance and increased flexibility in determining the exchange rate had an implication on our market risk factors.
Customer preferences	Increasing customer sophistication and need for multi-channel banking, better customer service and wider accessibility has compelled us to revisit our customer service proposition.
Cyber threats	Increasing connectivity has afforded numerous opportunities for customer engagement and servicing, although this is complemented by numerous risks related to cyber security, customer privacy and information system risks.
Climate change	Implications of climate change have been felt through erratic weather conditions including a prolonged drought and floods which have impacted the country's Agriculture sector.

(a) Linking Business Strategy to Risk Management

At Nations Trust Bank, risk management is considered an integral element of all organisational processes that create, sustain and protect value. Risk management is embedded into strategic planing including projects and all daily operations. In addition to regulatory requirements, our risk management framework embraces globally accepted, best practices in identifying, assessing, measuring and managing the key risks faced, including the critical interdependencies between the risks.



Our business model and risk exposures

The Bank's risk profile is reinforced by its business model which represents the business activities and processes in place to transform inputs into long-term value for stakeholders. The risk management framework is aligned to the Bank's overall business strategy, enabling it to proactively identify, measure, mitigate and respond to emerging risks arising due to the Bank's strategic agenda. Key risks stemming from the Bank's business model are given below;

	Activity	Risk exposure
Risks arising from the Bank's operations and processes	Lend	Credit risk
	Fund	Funding and liquidity risk
	Trade	Market risk
	Key operations and processes	Operational risk (systems, people, inadequate processes, external events)
	Compete	Strategic risk
	Regulated industry	Compliance risk
Risks monitored by the Bank for impact	Geopolitical risk	
	Macro-economic risk	
	Legal/regulatory risk	

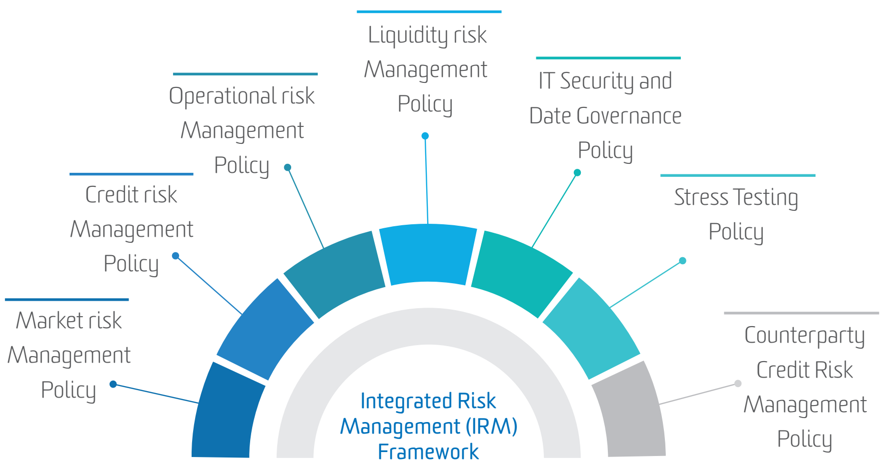
The risk assessment of the components of the business model enables the Bank to evaluate the robustness of the existing business model and identify the events that could impact the efficient and effective delivery of sustainable value creation. The assessment also identifies opportunities for improving operational and compliance efficiency. This helps the Bank to identify the risks it is willing to take – often defined or characterised as the risk appetite.

(b) Approach for Risk Management

Our systematic, timely and structured approach to risk management contributes to efficiency and to consistent, comparable and reliable results. It is underpinned by setting objectives, strategies, policies, risk appetite and tolerance limits for key types of risks.

Integrated Risk Management Framework

The Bank's Integrated Risk Management (IRM) Framework underpins the foundation for managing risk and clearly defines the tools, techniques and activities in place to ensure that all material risks are identified, measured, managed and reported. Clearly defined roles and responsibilities, both at Board and Executive Committee level ensure



independence of judgment and judicious empowerment. A comprehensive framework of policies ensures the consistency and clarity in the identification, measurement, management and reporting of key risks.

The Bank's key risk management objectives are,

- Establish a framework that supports the business activities to maximise risk-adjusted returns within the Board approved Risk Appetite and other aspects such as regulatory requirements and the Bank's internal controls
- Accurately identify and measure the sources of these risks
- Recommend appropriate levels of risks, consistent with the Board of Directors appetite or tolerance for such risks
- Control the level of risks by establishing limits and routinely monitoring the risk exposures to these limits
- Ensure that there is no breach of relevant CBSL regulatory requirements and applicable laws including Exchange Control regulations, ICASL guidelines, Stock Exchange Requirements, CSE regulations, Company Law requirements etc.
- Seek to enable a balance between controlling these risks and generating optimal returns within these risk constraints
- Add value to the Bank's business units, Senior Management and Board of Directors by providing analysis and recommendations to support the achievement of the overall Bank's strategic objectives.

Risk Appetite

An integral part of Bank's Integrated Risk Management (IRM) is the development of key risk metrics, exposure limits, and governance and oversight processes to ensure enterprise-wide risks are within acceptable and manageable levels. A best-practice approach to addressing these requirements is to implement a clearly defined Risk Appetite Statement (RAS).

While developing the Bank's RAS, we have considered following fundamental aspects with respect to strategy, risk management, and operations, including:

- The strategies for the overall organisation and individual business units, the key assumptions underlying those strategies
- The significant risks and aggregate risk levels that the bank is willing to accept in order to achieve our objectives
- The governance structures and risk management policies to oversee and control risks
- Assess and quantify the key risks so that bank can monitor our exposures and key trends over time
- Establish the appropriate risk tolerances given our business objectives, profit and growth opportunities, and regulatory requirements
- Integrate our risk appetite into strategic and tactical decision making in order to optimize our risk profile
- Establish an IRM feedback loop and provide effective reporting to the Board and senior management

The risk appetite is defined by the Board of Directors and clearly articulates the type and quantum of risk the Bank is willing to take in the normal course of business. It is expressed in the form of tolerance levels and triggers across a range of parameters which reflect the key risks the Bank is exposed to. The Risk appetite is reviewed and updated regularly by the Board of Directors in line with the Bank's strategic and financial objectives. During the year, certain credit and market risk parameters were revised to reflect evolving risks in the industry as depicted below.

	Position as at end 2017	Limit/Range for 2017	Limit/Range for 2016
Credit Risk			
Impairment Ratio	1.32%	1.5% - 2.25%	1.75% - 3.00%
Market Risk			
Sensitivity of the Trading portfolio against interest rate fluctuations	0.05%	Below 2%	Below 2%
Liquidity Risk			
Loan to Deposit Ratio (L/D Ratio)	98.9%	100%	100%
Operational Risk			
Operational Losses to Operating Expenses Ratio	0.24%	1%	1%

Risk Appetite Dashboard Structure

Define risk tolerances for five primary risks:

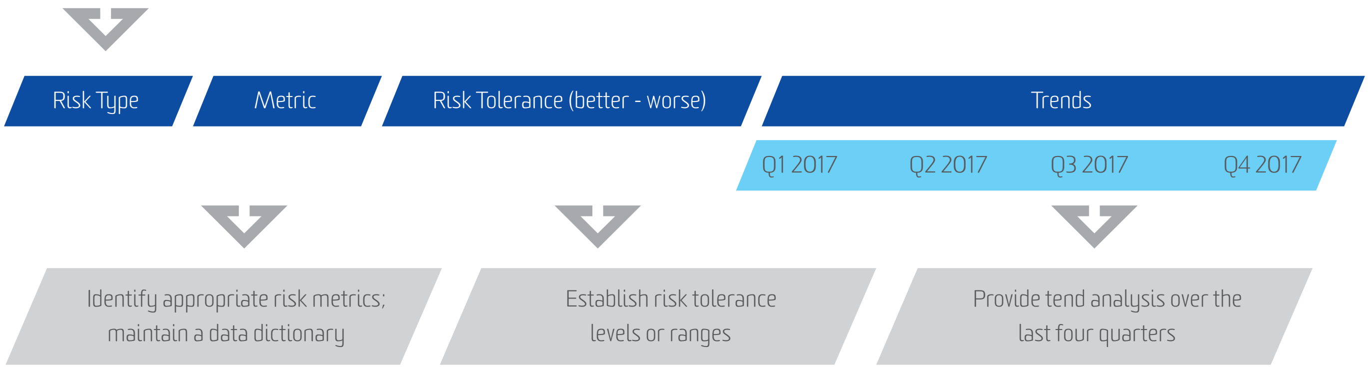
Strategic/Business: The impact on earnings or value arising from adverse business decisions or lack of responsiveness to industry changes

Financial: The risk to income, cash flows or valuation of equity resulting from adverse movements in market rates or prices

Operational: The risk of adverse economic impact resulting from human error or malfeasance, failed internal processes or systems, or external events are monitored through Key Risk Indicators (KRI) framework

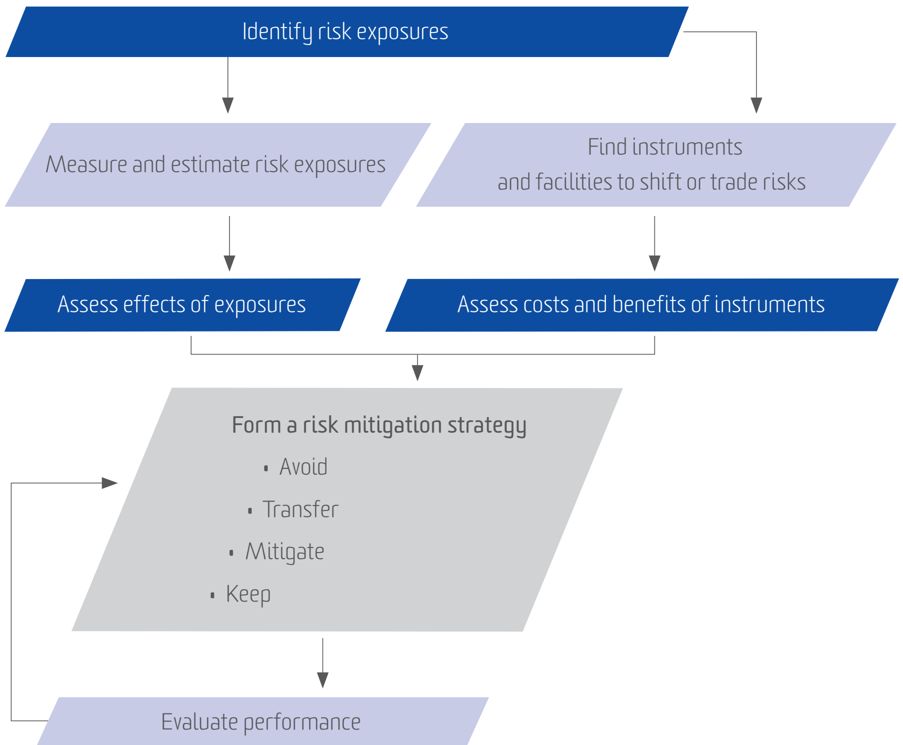
Compliance: The risk of legal or regulatory sanctions, financial loss, or damage to reputation as a result of the company's failure to comply with laws and regulations

Reputational: The risk arising from negative opinion as viewed by the company's stakeholders



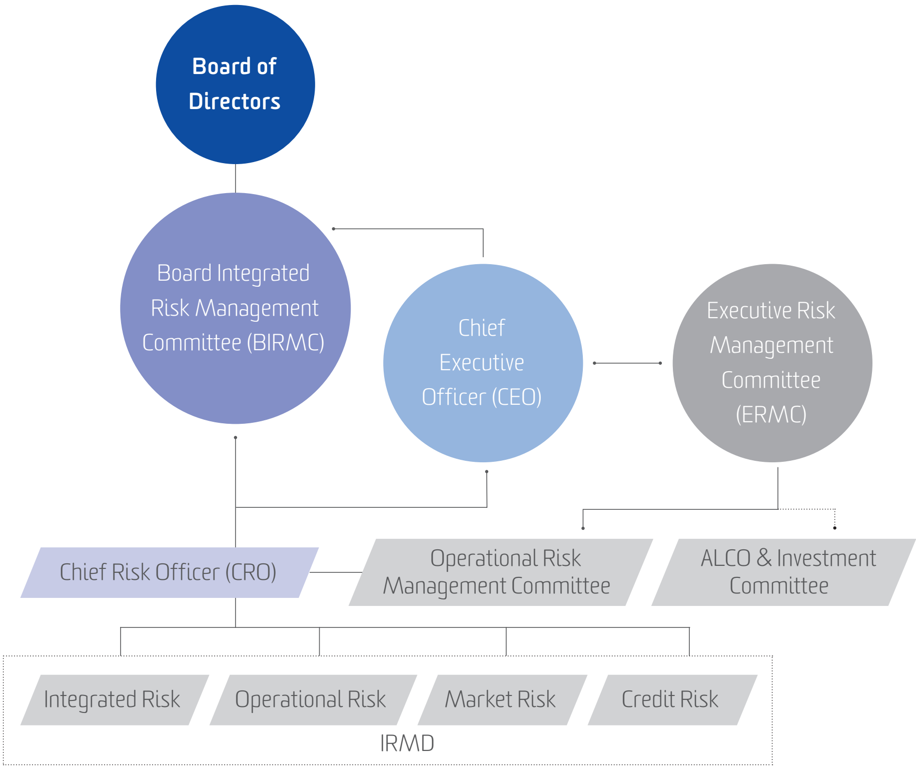
Risk Management process

The Bank's risk management process comprises the following steps;



(c) Risk Governance

Clearly defined risk governance structures enable the segregation of duties and judicious empowerment of employees. The Board of Directors holds apex responsibility for the effective management of risk within the Bank including setting the risk appetite, formulating policy and reviewing risk-related management processes. The Board of Directors is assisted by several sub-committees and executive committees in the discharge of its duties related to risk management as illustrated below.



Board Integrated Risk Management Committee (BIRMC)

The BIRMC provides independent oversight of all risk related aspects within the Bank including overseeing the formulation of risk management policies and supporting the Board of Directors in determining overall risk appetite. The composition, responsibilities of the BIRMC and its key areas of focus during the year is given on the Committee Report.

Board Audit Review Committee (BARC)

The BARC plays a key role in assessing the adequacy and effectiveness of the Group's internal controls on financial reporting, risk management measures and governance structures in place to mitigate current and emerging risks. For further details on the composition and activities of BARC, please refer the Committee Report.

Board Credit Committee (BCC)

The BCC assists the Board of Directors in formulating credit policies and procedures, provides direction on the Bank's lending exposures (including approving large loan exposures) and consistently monitors the quality of the Bank's credit portfolio. For further details on the composition and activities of BCC, please refer the Committee Report.

In addition to these Board Committees, the following Executive Committees are responsible for specific risk management aspects;

Executive Risk Management Committee (ERMC)

The Executive Risk Management Committee provides recommendations to the BIRMC on the Bank's overall risk management policies, risk appetite and risk management procedures. The Committee is also responsible for reviewing the Bank's risk grid and implementing specific actions to mitigate identified risks. This Committee is chaired by the Chief Executive Officer and represented by all members of the Corporate Management team.

Asset and Liabilities Management Committee (ALCO)

Chaired by the CEO, all heads of business units and managers from the risk, management reporting and financial risk reporting divisions, the ALCO is entrusted with the responsibility of managing the Bank's balance sheet within the performance and risk parameters defined by the Board of Directors. The ALCO implements Board-approved liquidity management policies, regularly reviews the liquidity, pricing of assets and liability products, cash flow and asset liability maturity mismatches within the Bank.

IT Steering Committee

In addition to implementing the Bank's digital strategy, the Committee is responsible for ensuring that mechanisms are in place to effectively monitor and manage the Bank's IT projects, systems and information security.

Committee membership is held by the CEO, CIO, Business line heads, COO, CFO and CRO among others.

Operational Risk Management Committee (ORMC)

The ORMC is the main interaction point between all operational functions of the bank encompassing end to end process coverage. The Committee is chaired by the Bank's CRO and includes the COO, CIO, EVP (Internal Audit) and several operational heads. The primary purpose of this committee is to critically assess operational processes and internal controls with a view of strengthening the operational risk management framework at a functional level. The committee will provide its recommendation to ERMC and subsequently to BIRMC as may become necessary.

Three lines of Defense Model

We adopt the globally accepted three lines of defense governance model which ensures transparency and accountability in risk management through clear segregation of duties as depicted below.

1

First line of defense

Functions that own and manage risk

The identification, management and reporting of risks at business unit level, ensuring that specific risks are managed at the source as effectively as possible

2

Second line of defense

Functions that oversee risk

Centralised oversight of the first line of defense by the risk management, compliance, finance and other support functions

3

Third line of defense

Functions that provide independent assurance

Provides independent and objective assurance on the risk exposures, processes and practices in place. Comprises of Internal and External Audit Functions

The Integrated Risk Management Department (IRMD)

Led by the Bank's Chief Risk Officer, the IRMD independently assures that the Bank's risk parameters are maintained within risk appetite approved by the Board of Directors. The IRMD is responsible for multiple aspects of the Bank's risk management framework as illustrated below;

Nurturing a Risk Culture	Risk Measurement	Risk Monitoring	Risk Management
Nurtures an organisation-wide risk culture through development of a common risk language and Bank-wide risk training and support	Carry out impairment of loans and advances comprehensively ensuring adequate loan loss reserves	Monitor compliance with risk management policies and procedures	Development and review of risk management tools
Provides interpretation of risk-related regulations/ leading practices and disseminates to business units	Carry out "Loan review Mechanism" and continuously improve and strengthen lending processes and practices	Monitor the Bank's overall risk profile, including risk aggregation, reporting, trends, and change in material risk positions	Devise and implement Credit Portfolio Management techniques and advice management/BIRMC as appropriate

The key linkages between IRM, Risk Appetite, Risk Culture

(d) Risk Culture

The success of the risk management frameworks and practices implemented within the Bank are ultimately dependent on the values, attitudes and awareness of our employees. We persistently strive to nurture a culture of risk awareness among our employees through numerous engagement mechanisms, ongoing communication and risk-related training. Procedure manuals are in place for all critical operations, compelling employees to follow standards guidelines in day to day activities. Ongoing communication through news bulletins, social media (Yammer group updates) collaboration tools and e-mails are aimed towards strengthening the risk dialogue within the Organisation. Risk also forms a vital part of the Bank's training proposition, comprising several mandatory training modules for all employees. The Risk Reporting process which include the Risk and Control Self Assessment (RCSA) Process and Transaction In Difficulty (TID) / Operation Loss Events (OLE) reporting have helped to instil a culture of risk-awareness.

(e) Risk Measurement

The Bank adopts an array of tools and techniques to measure its key risk exposures as listed below;

Risk exposure	Tools and techniques	Frequency of measurement
Credit Risk	Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). Trends and Sector Concentration, NPL Ratios, Early Warnings monitoring	Monthly
Market Risk	Maturity/Interest Rate Risk Gap analysis, Interest Rate Risk Ratio, PVBP, VAR, Duration Analysis, Sensitivity Analysis, Stress Testing on IRR in Trading/ Banking book (EAR/EVE), Duration Analysis	Daily/Monthly
Operational Risk	Transaction In Difficulty (TID), Risk Control Self Assessment (RCSA)/Heat map/Scenario Analysis/Key Risk Indicators	Daily/Monthly
Reputational Risk	Customer feedback/complaints, Positive/Negative publicity through qualitative scorecard approach	Daily
Strategic Risk	Banks financial performance/Peer performance and strategic initiatives through Qualitative scorecard approach	Monthly

(f) Risk Reporting

Clearly defined risk reporting mechanisms ensure that key risk exposures are identified and escalated to the relevant personnel and ultimately the Board of Directors in a timely and relevant manner. Risk reporting encompasses all key risk exposures as given below and are clearly communicated to the all relevant employees across the organisation.

Risk Exposure	Reporting line	Risk Reporting	Content
Credit Risk	Board of Directors	Credit Risk Summary	Portfolio Health / aging & trend analysis, Allowance for Impairment, Concentration Risk Analysis, NPL vintage Analysis
		Exposure vs Risk Appetite	NPL ratio Net of IIS, Specific Provision Cover, Impairment Ratio, NPA stress test, Sectoral exposures, Accommodation to related parties, Rating-wise exposures"
		Loan Review Mechanism (LRM) Reports	LRM findings & recommendations
	Management/ Management Sub committees	Credit Risk Management Report	Top 20 Exposures, Portfolio Health / aging & trend analysis, Analysis of Impairment assessment
		Early Warning Signals Summary	Analysis of Early warnings / exposures
		Watch lists	Management watch list customer updates
Market Risk	Board of Directors	Exception Report	Breaches of FX Net Open Position Limits, Stop loss Limits and other Market Risk limits
		FIS performance	Government Security movement and performance
		USD and other Investments Report	Performance on investment in foreign currency securities and corporate debt securities
		Exposure vs Risk Appetite	Interest rate Risk, Sensitivity of the Trading portfolio against interest rate fluctuations, FX Rate Risk, Projected Net Cash Inflow/(Outflow) in Bank books, Liquidity Coverage Ratio, Statutory Liquidity Ratio, Loans / Deposit Ratio (L/D)
		Quarterly Stress testing on Trading book	Stress testing based on historical market rate movements
	Management/ Management Sub committees	Treasury Performance Report	Liquidity Reserve ratio, M 2 M of FX and FIS portfolios, Daily Treasury Profitability, Treasury Exceptions
		ALCO Report	Maturity Gap, Liquidity Reserve ratio, Liquidity Coverage Ratio, Liquidity Stress Testing, Other Liquidity Stock ratios, Monitoring of Contingency Funding plan, Interest rate risk ratios, FX Risk and Sensitivity Analysis
		Management Report	Performance of Investments in Government Securities
Operational Risk	Board of Directors	Exposure vs Risk Appetite	Uninsured Operational Losses Vs net income, Total operational losses Vs operating expenses Summary of Operational Losses & Loss Events,
	Management/ Management Sub committees	Monthly Operational Risk Management Report	Operational Risk - Risk Appetite, Detailed analysis of Operational Losses

(g) Stress Testing

Stress testing is conducted on an ongoing basis to identify the potential impacts that fluctuations in market variables and other risk factors could have on the Bank's risk profile. Impacts are measured with reference to capital, earnings and liquidity positions. The findings of the Bank's stress testing activities are an input into several processes including capital computation under ICAAP, strategic planning and risk management among others. The BIRMC conducts regular reviews of the stress testing outcomes including the major assumptions that underpin them.

Credit Risk	Deterioration in asset quality Increase in large NPLs Shifts in NPL categories
Interest Rate Risk	Movements in interest rate by +/- 100 bps and 200 bps
Foreign Exchange Risk	Forex Risk on Net Open Position
Liquidity Risk	Funding Capability of a cash outflow in a Liquidity stress scenario - up to 1 month
Operational Risk	Scenarios based on historical events from internal and external loss data

Potential impact on,

- Earnings
- Capital Adequacy
- Funding Capability/Liquidity

Stress Testing - Credit Risk

Stress testing for credit risk is carried out in order to gauge the potential impact of the following on the Bank's capital adequacy levels;

1. Deterioration in asset quality as determined by an increase in non-performing loans
2. Adverse movements within NPL categories
3. Credit Concentration Risk - HHI Scale up Stress Testing

Stress Testing - Liquidity Risk

Mild Stress Scenario - Bank Specific Crisis

In this scenario it is assumed that the Bank's liabilities cannot be rolled over or replaced, resulting in the need to utilize its liquidity cushion. For retail banks, this scenario is likely to entail an acute deposit run. Such a scenario would typically include the following characteristics:

- Significant daily run-off rates for deposits, with increasing requests from customers to redeem their time deposits before maturity;
- Interbank deposits repaid at maturity;
- No new unsecured or secured funding obtainable from the market;
- Forced sale of marketable securities at discounted prices.

Moderate Stress Scenario - Market Crisis Scenarios

This scenario is characterised by a market-wide liquidity squeeze, with severe contraction in the availability of secured and unsecured funding sources, and a simultaneous drying up of market liquidity in previously highly liquid markets. Implications are likely to be,

- Counterparty defaults
- Substantial discounts needed to sell or repo assets and wide differences in funding access among banks due to the occurrence of a severe tearing of their perceived credit quality (i.e. flight to quality);
- Restrictions on currency convertibility; and
- Severe operational or settlement disruptions affecting one or more payment or settlement systems.

Severe Stress Scenario - Combination of Bank specific and Market crisis scenario

Integration of bank specific and market crisis scenarios with acute deposits runs and credit quality deterioration.

Stress Testing - Interest Rate Risk

Stress testing is conducted on interest sensitive assets in the Trading and AFS portfolios in order to measure the impact of plausible economic downturns. The exercise is performed quarterly in line with bank's stress testing policy. Based on the analysis on macro-economic variables, portfolios are stressed under three scenarios namely Major, Moderate and Minor. A parallel shift on yield curves are applied under these scenarios and the results are presented to BIRMC.

Stress Testing - Exchange Rate Risk

Based on historical movements of foreign currency values as well as macro-economic variables the Bank perform stress testing on its currency positions on a quarterly basis. USD/LKR rate is stressed under three different scenarios whereas other major currencies are stressed under worst possible conditions. Results are presented to BIRMC on quarterly basis.

Stress Testing - Operational Risk

As part of stress testing for operational risk, scenarios of potential events, which are plausible, forward looking and having severe impact to the Bank if they occur are identified and analysed. Identified external events forms another key component of such scenarios. Modeling stressed losses based on historical loss data sets has the inherent limitation of not being able to predict the unknown events that might not yet have materialized but are plausible in the future, while inadequate external loss data is another challenge. Despite these inherent limitations, the existing framework for stress testing of operational risk forms an integral part of stress testing.

(h) Mitigating Key Risk Exposures

The Bank's key risk exposures during the year under review are illustrated below;

Credit Risk Management

The Board Credit Committee (BCC) functions as the steering committee holding overall responsibility for implementing the Bank's credit risk management framework. At an executive level, the responsibility of managing the Bank's credit risks have been delegated to the Head Office Credit Committee (HOCC). The HOCC is headed by the CEO and comprises of the Heads of business units with the CRO also contributing as an independent observer. The HOCC conducts independent review for the credit risks lying with the business units and makes recommendations on credit policies, prudential limits on sector exposures and reviews loan review mechanism reports in order to make improvements.

The credit risk management framework is composite with following;

- Comprehensive credit policy framework

The credit risk policy framework is formulated by the BCC on behalf of the Board of Directors. Key aspects of the Group's credit policies include directions on pre-credit sanctioning which includes well-defined credit criteria and prudential limits in line with the defined risk appetite, post-credit monitoring and delegated approval authority at multiple levels. The framework is reviewed and updated regularly based on evolving best practices as well as emerging risks and opportunities.

The Board defined credit appraisal and monitoring procedures include the following;

Pre-credit sanctioning

- Multiple levels of approval authority
- Sophisticated risk rating and scoring system
- Prudential limits for concentration risk
- Structured and comprehensive credit appraisal and defined credit criteria

Post-credit monitoring

- Portfolio evaluation with emphasis on early warning signals
- Robust credit review mechanism
- Stress testing and scenario analysis
- Review of selected exposures

Portfolio management

- Regular monitoring of concentration risk and other prudential limits
- Structured loan review mechanism
- Creation of loan loss reserves through impairment assessment.
- Periodic reporting to HOCC, BCC and BIRMC

- Risk Scoring

Tailor-made risk scorecards which adopt advanced statistical data analytics are utilised when underwriting consumer and SME loans. These scorecards are based on credit-worthiness of individual customers, disposable incomes and broader characteristics of the customer demographic group and provide an indication on the level of credit that can be granted based on the projected repayment capacity.

- Risk Rating System

The Bank has implemented a sophisticated internal risk rating system to rate its obligors. The system incorporates five rating models which are able to effectively gauge the risk profile of the Bank's diverse client portfolios of large and mid-sized corporates, SMEs and retail/individual customers. The system provides an indicative probability of default for the borrower. The ratings thus derived are mapped into a Bank wide single point indicator rating scale.

- Culture of responsible lending

The Bank has been successful in nurturing a culture of risk awareness and responsible lending through a high level of internal communications and comprehensive training programs. Enhancing the credit appraisal skills and risk acceptance of the Bank's credit officers during the year have borne results, with several key business lines (such as leasing portfolios & corporate) achieving significant improvements in NPL and impairment positions.

Areas of focus in 2017

- Strengthened pre-credit sanctioning and collections: Proactively providing independent assessments for approvals while increased vigilance on certain sectors such as real estate, apartments and motor vehicle imports among others.
- Strengthened the Consumer Credit Policy: In response to increased impairment in the 2nd quarter of the year, we revised the policies on minimum salary thresholds,

amount of disbursement and strengthened credit evaluation of the portfolio of organisations to which we were providing salaried employee loans.

- **Post-credit monitoring:** Strengthened the early warning signal system, enabling business units to foresee potential deteriorations in credit quality and be more proactive in collections and monitoring.
- **Enhanced the continuous feedback loop:** Improved coordination and communication between the pre-credit sanctioning and post-credit monitoring divisions.
- **IFRS 9 Implementation:** Introduced mechanisms to strengthen the impairment assessment methodology in line with the requirements of IFRS 9.
- **Training:** Employee training on credit appraisal, risk acceptance and overall awareness on credit risk.

Credit Risk Performance in 2017

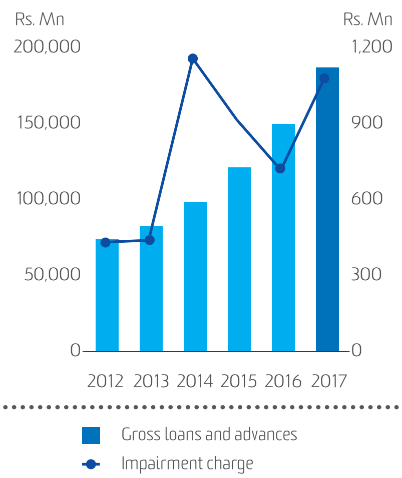
Operating Context: The Bank sought regional diversification through corporate offshore banking with new customers in Cambodia and Maldives, giving rise to credit risk although this is balanced by the Bank's partnership with strong funding partners and counterparties. Meanwhile, the weaker agriculture sector affected the working capital and cash cycles of the trading sector leading to an increase in NPLs from the SME segment.

Overall portfolio growth was 25%, supported by strong volume growth in the SME sector. Conscious efforts to rebalance the portfolio towards SME and Corporate Banking have resulted in an overall improvement in the risk profile. Total impairment charge on loans & advances increased by 63%, stemming primarily from the increased impairment in consumer portfolio and SME Sector.

Default risk

Default risk is the key component of credit risk and are potential losses arising from the default of a borrower or counterparty. During the year, default risk as measured by the Gross NPL ratio decreased marginally from 2.80% in 2016 to 2.72% in 2017, due to prudent credit risk management and strong loan book growth contributing towards the improvement.

Impairment Trends



Individually Impaired Loans (as per financial reporting) (in LKR '000)

	Exposure		Impairment			Age Analysis		
	On Balance sheet	Off Balance Sheet	Impairment Provision	Net Present Value of Future Cash Flows*	Write Offs During the period	0 - 30 Days	31 -90 Days	Above 90 Days
Corporate Loans	1,466,105	-	246,817	1,219,218	-	1,179,494	100,682	216,503
Retail, SME & Consumer	3,690,898	-	803,954	2,886,944	-	1,943,266	1,151,320	596,313
Housing Loans	-	-	-	-	-	-	-	-
Leasing	168,933	-	6,193	162,740	-	100,085	68,848	-
	5,325,936	-	1,056,964	4,268,972	-	3,222,845	1,320,850	812,816

*Sum of net present value of cash flows expected through normal business activities or collateral liquidation

Collectively Impaired Loans (as per financial reporting) (in LKR '000)

	Exposure		Impairment		Age Analysis		
	On Balance sheet	Off Balance Sheet	Impairment Provision	Write Offs During the period	0 - 30 Days	31 -90 Days	Above 90 Days
Corporate Loans	44,270,709	-	63,139	-	43,804,911	441,032	24,766
Retail, SME & Consumer	96,884,936	-	1,297,361	553,291	87,589,227	7,303,520	1,992,189
Housing Loans	3,202,405	-	65,899	-	2,955,257	89,992	157,156
Leasing	37,084,757	-	125,550	199,739	29,049,740	7,847,162	187,855
	181,442,807	-	1,551,949	753,030	163,399,135	15,681,706	2,361,966

* Staff Loans and Off Balance Sheet exposures are not assessed for impairment.

NPL Ratios - Key Business Lines

	Gross NPL ratio (%)	
	2017	2016
Consumer	4.3%	4.2%
Leasing	0.9%	2.2%
Corporate	0.2%	0.6%
SME Portfolio	4.2%	3.8%

Performing & Non Performing Loans (as per regulatory reporting) (in LKR '000)

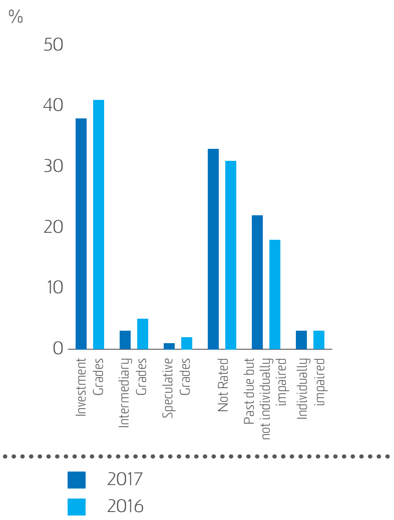
	Performing Loans		Non Performing Loans								
	Exposure		Exposure		Provision			Age Analysis*			
	On Balance Sheet	Off Balance Sheet	On Balance Sheet	Off Balance Sheet	Specific Provision	Collateral Information	Write Offs During the Period	Special Mention	Substandard	Doubtful	Loss
Corporate Loans	45,477,797	-	289,591	-	208,162	-	-	48,322	37	22,604	218,627
Retail, SME & Consumer	96,623,198	-	3,952,637	-	1,875,482	1,019,486	553,291	1,958,608	818,581	211,656	963,791
Housing Loans	2,998,748	-	203,657	-	45,421	280,190	-	67,525	8,566	22,358	105,209
Leasing	36,919,790	-	333,900	-	51,404	-	199,739	253,164	22,327	19,974	38,436
	182,019,533	-	4,779,785	-	2,180,469	1,299,676	753,030	2,327,619	849,511	276,592	1,326,063

Note: Rs 3,806 Mn worth of NPL contracts were not impaired individually and assessed under collective impairment as they were below individually significant threshold.

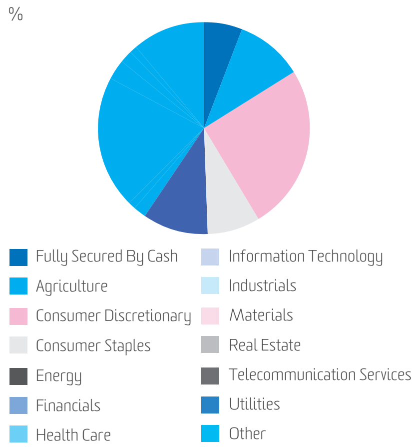
*Age analysis is based on regulatory sub classification criteria.

Risk Management Review

Risk Ratings Distribution



Sectoral Distribution of Loans



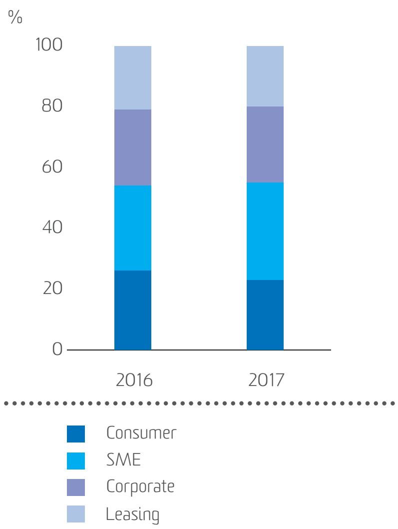
Concentration risk

Concentration risk is measured through the Normalized Herfindahl-Hirschman Index (HHI) and is computed as part of the Bank's ICAAP process in which concentration related to industry sectors, individual customer segments and product maturity are monitored. Rapid growth in the corporate and SME books during the year in line with the Bank's overall strategy, has enabled the Bank to reduce dependence on the consumer sector and achieve more balance in its portfolio.

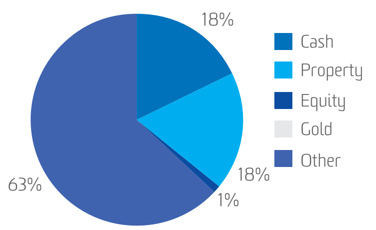
Large exposures

Large exposures	% of total portfolio (Cumulative)
Top 5	4.20%
Top 10	7.47%
Top 20	12.07%
Other	87.93%

Product-wise Breakdown



Collateral Breakdown



Further details of exposures subject to credit risk by major types, geographical areas, sectors and residual maturity are available with notes 14, 42 and 44 to financial statements.

Market Risk Management

Market Risk is the potential loss arising from changes in the fair value or future cash flows of financial instruments due to fluctuations in market variables. The key market risks the Bank is exposed to are interest rate risk, foreign exchange risk and liquidity risk.

Market risk exposure originates mainly from the interest rate risk of the Bank's trading and non-trading books and exposure to foreign exchange risk arising from proprietary trading and foreign currency denoted transactions.

The Bank's Market Risk Exposure

Assets	2017 Trading book (Rs. million)	2017 Non-trading book (Rs. million)	2017 Total (Rs. million)
Cash and Cash Equivalents	-	6,867	6,867
Balances with Central Bank of Sri Lanka	-	11,193	11,193
Reverse Repurchase Agreements	-	11	11
Derivative Financial Instruments	230	-	230
Financial Assets	521	48,732	49,253
Other Financial Assets	-	6,798	6,798
Loans and Advances to Customers	-	186,537	186,537
Other Assets	-	1,893	1,893
Investments in Subsidiaries	-	679	679
Fixed Assets (PPE & Intangibles)	-	3,733	3,733
Total Assets	751	266,443	267,194
Liabilities			
Due to Banks	-	10,714	10,714
Repurchase Agreements	-	12,319	12,319
Derivative Financial Instruments	495	-	495
Due to Customers	-	194,297	194,297
Debt Issued and Other Borrowed Funds	-	19,738	19,738
Tax Liabilities (Current & Differed)	-	2,541	2,541
Other Liabilities	-	6,282	6,282
Equity & Other Reserves	-	20,808	20,808
Total Liabilities	495	266,699	267,194
Commitment & Guarantees	-	134,932	134,932
Forward on Government Securities	-	-	-
Derivative Assets- Held for Trading (Net)	38,199	-	38,199
Contingent Liabilities & Commitments	38,199	134,932	173,131

The Asset Liability Management Committee (ALCO) holds executive responsibility for overseeing the Bank's market risk exposures. On the other hand Investment Committee is responsible for overseeing investment and reinvestment of the Bank's funds and also evaluating investment performance. The evaluation will take into account compliance with investment policies and guidelines and risk tolerance levels. In addition, the IRMD is responsible for the implementation and review of market risk management policies, tools and techniques. As treasury operations can give rise to significant market risks, the Treasury Middle Office (which operates independently from the Treasury Department) monitors treasury related market risks such as Foreign Currency Net Open Position (NOP) limits and counterparty limits on a daily basis.

Robust market risk policies

A comprehensive framework of policies is in place to govern all aspects of market risk management. These include the asset and liability management policy, liquidity risk management policy, FOREX risk management policy and policy on stress testing, which provide guidance on the systems, procedures, tools and techniques for the identification, assessment, mitigation, monitoring and reporting on all market related risks. The policies are reviewed and updated regularly in view of emerging market risks.

Risk limits and trigger points

The Board of Directors have defined a range of limits for investment and treasury related activities including foreign currency net open position limits, counterparty limits, stop loss limits, minimum liquidity stop ratios and other market risk related limits. Actual performance against these limits are monitored by the Middle Office and the IRMD and brought to the attention of the ALCO & BIRMC on a regular basis. Meanwhile thresholds that trigger specific management action is specified to ensure proactive management of emerging market risks.

Areas of focus in 2017

Revised the liquidity management policy: Revised to include more robust monitoring, wider measurement tools and techniques comprising new ratios and more stringent stress testing mechanisms with embedded macro-economic scenarios.

Implementation of ALM System: Dynamic and Static modules to strengthen analytical capabilities which include system generated gap analyses, Value at Risk methods, stress testing tools and risk reporting capabilities.

New dimension of Interest Rate Risk measurements: IRRBB and Interest Rate Risk Ratios to comply with requirements of our international funding agencies.

Foreign Exchange Risk

Foreign Exchange (FOREX) risk is the potential loss arising from fluctuations of value in a financial instrument due to changes in foreign exchange rates. The Bank is exposed to foreign exchange risk through its holding of assets denominated in foreign currency.

Executive responsibility for managing the Bank's forex risks lie with the Treasury department with a clear segregation of duties between the front, middle and back offices to ensure the adequacy of internal controls. FOREX risks are managed through limits on exposure to currencies on an individual and aggregate basis, as well as dealer and counter-party limits, overnight and intra-day limits and stop loss limits. These limits are independently monitored on a daily basis by the Treasury Middle Office, ensuring Market Risk exposures are within the board approved limits. These transactions are also governed by the CBSL which has in place a stringent regulatory framework which includes an approval mechanism and exposure limits.

Net Open Position of Foreign Currency Denominated Assets and Liabilities of Domestic Banking Unit * (in millions of respective currency)

Currency	As at 31st December 2017	Up to One month	1 - 3 months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	NOP
USD	Assets (on and off BS)	66.191	39.934	87.435	41.706	10.196	10.656	2.225	(1.053)
	Liabilities (on and off BS)	75.739	19.211	30.109	26.245	12.198	54.341	41.553	
	Periodic gap	(9.548)	20.723	57.326	15.461	(2.002)	(43.685)	(39.328)	
GBP	Assets (on and off BS)	6.925	1.505	1.007	0.022	0.064	0.049	0.023	(0.018)
	Liabilities (on and off BS)	0.754	0.684	1.693	0.970	0.709	0.267	4.536	
	Periodic gap	6.171	0.821	(0.686)	(0.948)	(0.645)	(0.217)	(4.514)	
EUR	Assets (on and off BS)	3.366	1.297	6.340	5.085	0.231	0.067	0.010	0.006
	Liabilities (on and off BS)	0.624	0.515	6.596	5.735	0.660	0.253	2.007	
	Periodic gap	2.742	0.782	(0.255)	(0.651)	(0.429)	(0.186)	(1.997)	
AUD	Assets (on and off BS)	8.683	6.905	0.707	0.011	0.040	0.038	0.025	(0.039)
	Liabilities (on and off BS)	1.147	1.867	1.492	1.827	1.314	0.512	8.290	
	Periodic gap	7.537	5.039	(0.785)	(1.816)	(1.274)	(0.475)	(8.265)	
JPY	Assets (on and off BS)	47.773	0.192	0.297	0.602	2.648	1.573	-	0.318
	Liabilities (on and off BS)	39.413	0.442	0.919	0.492	4.079	1.538	5.883	
	Periodic gap	8.360	(0.251)	(0.623)	0.110	(1.431)	0.035	(5.883)	

*As per regulatory monitoring of Net Open Position

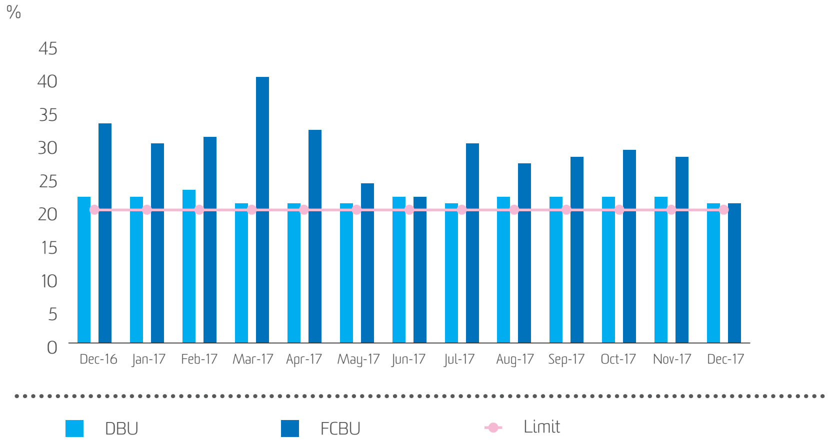
Liquidity Risk

Oversight responsibility for managing the Bank's liquidity risks is with the ALCO, which ensures that a sufficient liquidity buffer is maintained to meet the Bank's financial obligations. The ALCO regularly reviews the Bank's cash flow projections, funding capabilities, pricing decisions and liquidity levels to ensure compliance to internal targets as well as regulatory liquidity requirements. The Committee also works closely with the Treasury Department in the implementation of ALCO decisions on a day to day basis.

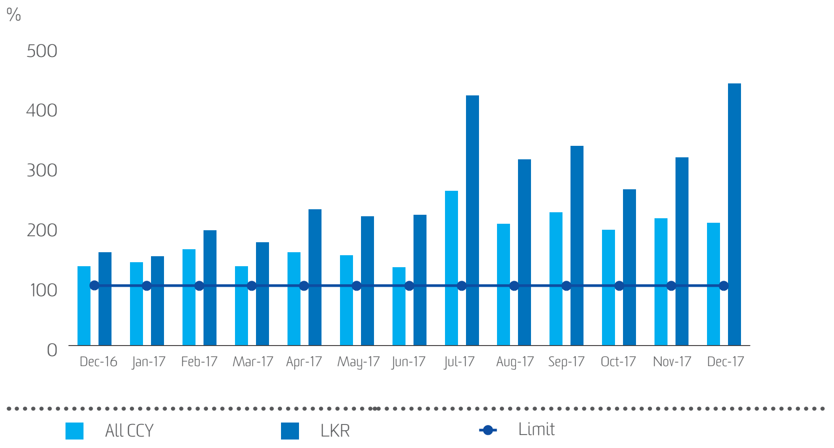
Healthy level of liquidity buffers were maintained throughout the year. Liquidity indicators were maintained comfortably within regulatory minimums and the limits defined by the Risk Appetite statement. Maturity analysis of assets and liabilities highlighted below also indicates a relatively healthy liquidity position.

Trend in Liquidity Ratios

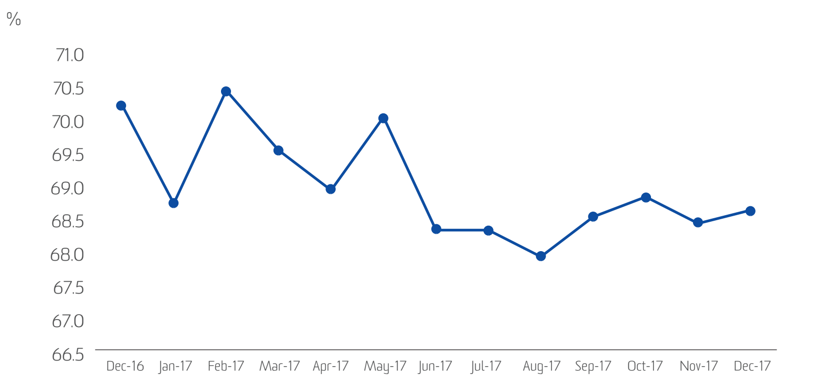
Statutory Liquidity Ratio



Liquidity Coverage Ratio

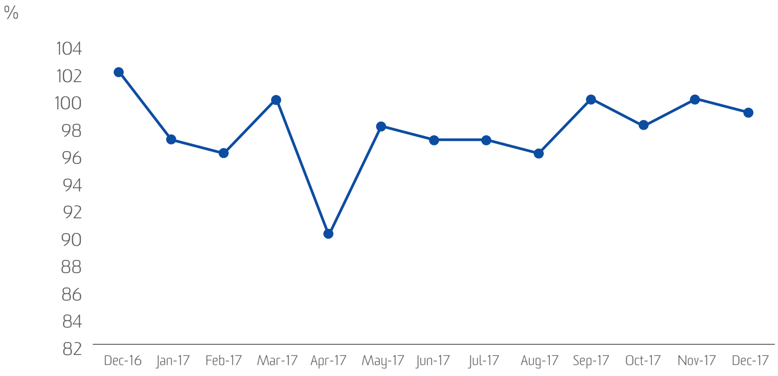


Net loans to Total Assets Ratio

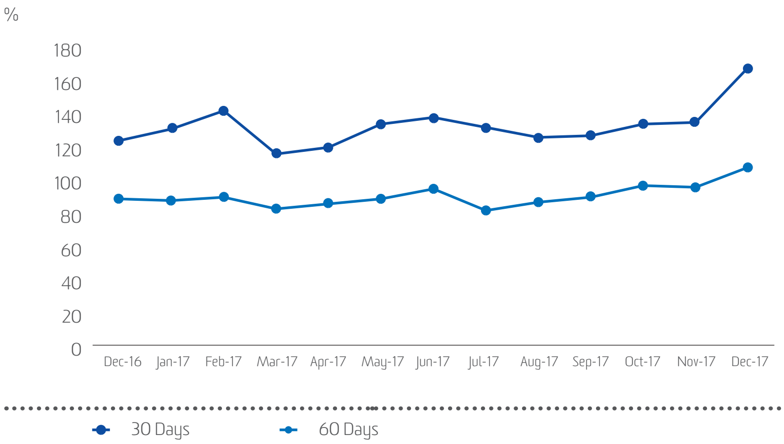


Risk Management Review

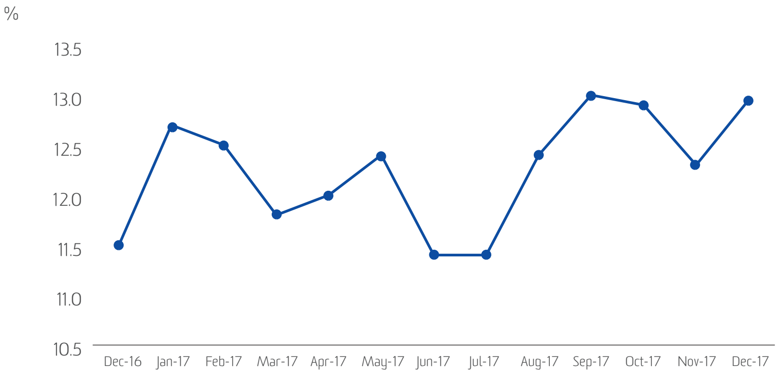
Loan to Deposit Ratio



Liquid Assets to Short Term Liability Ratio



Commitments to Total Loans



Liquidity Measuring Tools/Metrics

Liquidity is measured through the dual approaches of stock and flow. The former assesses liquidity based on the liquid assets held by the Treasury including cash, government securities and balances with financial institutions. The flow approach evaluates liquidity based on the projected cash inflows and outflows over the different time buckets, based on the maturity of assets and liabilities.

Listed below the Liquidity Measurement Tools and Metrics:

I. Maturity Mismatch: Contractual vs behavioural and Static vs Dynamic

Cash inflows and outflows from all on- and off-balance sheet items, mapped to defined time bands based on their respective maturities. In addition to static ALM analysis (Existing Liquidity Gap), we perform dynamic ALM analysis of the Balance sheet with different dimensions i.e Volume and macro variable projections to have better idea of futuristic liquidity profile of the Bank.

Maturity gaps in major currencies (in millions of respective currency)

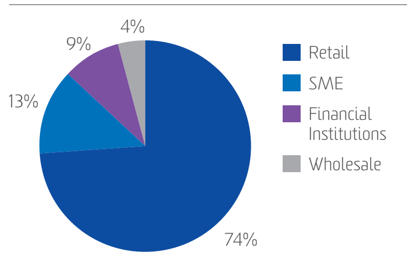
Currency	As at 31st December 2017	Up to One month	1 - 3 months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
LKR	Assets (on and off BS)	75,378	15,216	14,737	18,661	52,633	28,596	45,742	250,963
	Liabilities (on and off BS)	45,751	31,818	30,014	25,692	15,200	15,118	209,906	373,499
	Periodic gap	29,627	(16,602)	(15,277)	(7,031)	37,433	13,478	(164,164)	(122,536)
	Cumulative gap	29,627	13,025	(2,252)	(9,283)	28,150	41,628	(122,536)	
USD	Assets (on and off BS)	56	54	90	44	21	29	14	308
	Liabilities (on and off BS)	102	39	31	27	17	56	76	348
	Periodic gap	(46)	15	59	17	4	(27)	(62)	(40)
	Cumulative gap	(46)	(31)	28	45	49	22	(40)	
GBP	Assets (on and off BS)	7	2	1	-	-	-	-	10
	Liabilities (on and off BS)	1	1	2	1	1	-	5	11
	Periodic gap	6	1	(1)	(1)	(1)	-	(5)	(1)
	Cumulative gap	6	7	6	5	4	4	(1)	
EUR	Assets (on and off BS)	3	1	6	5	-	-	-	15
	Liabilities (on and off BS)	1	1	7	6	1	-	4	20
	Periodic gap	2	-	(1)	(1)	(1)	-	(4)	(5)
	Cumulative gap	2	2	1	-	(1)	(1)	(5)	
AUD	Assets (on and off BS)	9	7	1	-	-	-	-	17
	Liabilities (on and off BS)	1	2	1	2	1	1	6	14
	Periodic gap	8	5	-	(2)	(1)	(1)	(6)	3
	Cumulative gap	8	13	13	11	10	9	3	
JPY	Assets (on and off BS)	48	-	-	1	3	2	-	54
	Liabilities (on and off BS)	63	24	1	1	4	2	483	578
	Periodic gap	(15)	(24)	(1)	-	(1)	-	(483)	(524)
	Cumulative gap	(15)	(39)	(40)	(40)	(41)	(41)	(524)	

II Concentration of Funding;

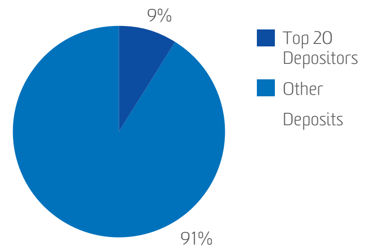
This metric is meant to identify those sources of wholesale funding that are of such significance that withdrawal of this funding could trigger liquidity problems. The metric thus encourages the diversification of funding.

We maintain an adequate stock of high quality liquid assets through diverse sources including inter-bank market, wholesale and retail repurchase agreements, assets and investments available for sale. A diversified funding strategy enables the Bank to contain its liquidity risk as exposure to a single avenue of funding is limited.

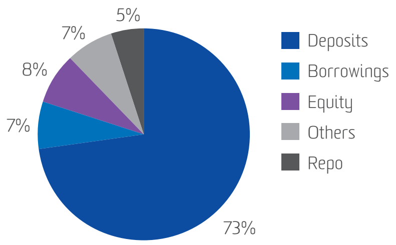
Deposit Mix



Deposit Concentration



Funding Composition



III. Liquidity Coverage Ratio (LCR)

The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered High Quality Liquid Assets (HQLA) that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

IV. Net Stable Funding Ratio (NSFR)

The NSFR requires bank to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits excessive reliance on short-term wholesale funding, encourages better assessment of funding risk across all on and off-balance sheet items, and promotes funding stability.

V. Liquidity Early Warning Signals

Bank has designed a set of indicators to aid this process to identify the emergence of increased risk or vulnerabilities in its liquidity risk position or potential funding needs. Such early warning indicators identify any negative trend and cause an assessment and potential response by management in order to mitigate the bank's exposure to the emerging risk.

VI. Intraday liquidity Management

We actively manage our intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions, thus contribute to the smooth functioning of payment and settlement systems.

VII. Contingency Funding Plan

The bank has a formal Contingency Funding Plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. Our CFP outlines policies to manage a range of stress environments, establish clear lines of responsibility and articulates specific trigger points for activation which are detailed in the liquidity management policy. The action plan for each contingency level is handled by a Crisis Management Team which includes the CEO and other members of the Corporate and Senior Management Team. During the year, the Bank had sufficient standby liquidity facility agreements (Reciprocal agreement) to buffer against sudden liquidity stresses.

VIII. Liquidity Transfer Pricing

The bank has incorporated liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval process for all significant business activities (both on and off-balance sheet), thereby aligning the risk taking incentives of individual business lines with the liquidity risk exposures their activities create for the bank as a whole.

The transfer price is determined based on the interest cost (cost of funds) of deposit mobilization and is centrally managed by treasury with ALCO guidance. Business units mobilizing deposits are allocated a margin above the interest cost of deposits by treasury and such funds are lent at a margin to business units driving asset products. This is a dynamic tool to derive customer/ product profitability on both asset & liability products.

IX. Liquidity Simulations : Stress Testing and Scenario Analysis

Bank's ALM system is facilitated with well-structured and user-friendly scenario setup process. Here, the user defines a set of assumptions relating to risk factors and balance sheet dynamics, to show how the balance sheet will be affected by, for example, planned new business and expected customer behaviour.

The system uses the defined assumptions to extrapolate the entire balance sheet over a future time horizon and deliver a rich set of results on projected dates, ranging from gap profiles to cash flows and liquidity ratios.

X. Other Liquidity Stock Ratios

Market Risk Performance in 2017

Interest Rate Risk

Interest rate risk arises from the possibility, that fluctuations in interest rates will affect the future cash flows or fair values of financial instruments. Exposure to interest rate risks arise from its lending, trading securities and deposit liabilities. Sub types of interest rate risks are,

- **Repricing risk** arises from the inherent mismatch between the Bank's assets and liabilities which results in repricing timing differences.
- **Basis risk** arises from the impact of relative changes in interest rates for financial

instruments that have similar tenors but are priced using different interest rate indices.

- **Yield curve risk** arises from shifts in the yield curve that have a negative impact on the Bank's earnings/asset values.

The Bank manages its interest rate risks primarily through asset liability repricing gap analyses, which distributes interest rate sensitive assets, liabilities and off-balance sheet positions into several maturity buckets. Board defined limits are in place for interest rate gaps and positions are monitored at least on a monthly basis to ensure compliance to the prescribed limits. In addition to the asset liability maturity mismatches, the ALCO regularly monitors trends in market interest rates, as well as results of interest rate stress testing analyses.

Interest Rate Sensitive gap Analysis (in millions of respective currency)

Currency	As at 31st December 2017	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Total
LKR	Assets (on and off BS)	84,871	26,007	34,153	20,829	36,009	15,598	5,765	223,232
	Liabilities (on and off BS)	60,309	41,654	47,892	40,910	4,351	6,494	713	202,323
	Periodic gap	24,562	(15,647)	(13,739)	(20,081)	31,658	9,104	5,052	20,909
USD	Assets (on and off BS)	55	91	108	41	1	-	-	296
	Liabilities (on and off BS)	135	40	86	31	-	-	-	292
	Periodic gap	(80)	51	22	10	1	-	-	4
GBP	Assets (on and off BS)	7	2	1	-	-	-	-	10
	Liabilities (on and off BS)	3	1	3	2	-	-	-	9
	Periodic gap	4	1	(2)	(2)	-	-	-	1
EUR	Assets (on and off BS)	3	2	6	5	-	-	-	16
	Liabilities (on and off BS)	3	1	7	6	-	-	-	17
	Periodic gap	-	1	(1)	(1)	-	-	-	(1)
AUD	Assets (on and off BS)	8	7	1	-	-	-	-	16
	Liabilities (on and off BS)	6	4	2	4	-	-	-	16
	Periodic gap	2	3	(1)	(4)	-	-	-	0
JPY	Assets (on and off BS)	29	-	-	-	-	-	-	29
	Liabilities (on and off BS)	51	-	1	-	-	-	-	52
	Periodic gap	(22)	-	(1)	-	-	-	-	(23)

Interest Rate Risk in Banking Book

Interest Rate Risk In Banking Book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions.

When interest rates change, the present value and timing of future cash flows change. This, in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its Economic Value (EVE) . Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its Net Interest Income (NII). Excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately.

Currently Interest rate risk in Trading Book is quantified under pillar 1 capital requirement. Until now, IRRBB has been included as an add-on under Pillar 2 capital requirements and integral part of the Internal Capital Adequacy Assessment Process (ICAAP) under a pillar 2 treatment.

Interest Rate Risk in Banking Book- Economic Value at Risk- in Millions (LKR equivalent)

Currency	Parallel shift	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Total
LKR	Up by 200 bp	(1.6)	80.0	126.6	263.8	(783.5)	(388.6)	(217.0)	(920.3)
	Down by 200 bp	1.6	(81.8)	(129.8)	(272.5)	834.0	427.8	262.0	1,041.3
USD	Up by 200 bp	5.9	(22.4)	67.9	36.7	(5.7)	(3.5)	(0.9)	78.0
	Down by 200 bp	(6.1)	23.0	(69.9)	(38.0)	6.1	3.9	1.1	(79.9)
GBP	Up by 200 bp	0.1	0.3	0.6	16.9	(0.3)	(0.3)	-	17.3
	Down by 200 bp	(0.1)	(0.3)	(0.6)	(17.5)	0.4	0.3	-	(17.8)
EUR	Up by 200 bp	(1.3)	0.2	2.7	6.7	(0.1)	(0.2)	-	8.0
	Down by 200 bp	1.3	(0.2)	(2.8)	(7.0)	0.1	0.2	-	(8.4)
AUD	Up by 200 bp	0.2	1.4	1.5	7.7	(0.2)	(0.3)	(0.3)	10.0
	Down by 200 bp	(0.2)	(1.5)	(1.6)	(8.0)	0.2	0.3	0.3	(10.5)
JPY	Up by 200 bp	-	-	1.17	-	-	-	-	1.17
	Down by 200 bp	-	-	(1.21)	-	-	-	-	(1.21)

Operational Risk Management

Oversight responsibility for operational risk management has been delegated to a dedicated Operational Risk Management Unit (ORMU). The Operational Risk Management Committee (ORMC) meets monthly as the main interaction point between all operational functions of the bank encompassing end to end process coverage. The Committee is accountable to Executive Risk Management Committee (ERMC) on matters related to operational risk management and to foster a culture within Nations Trust Bank that emphasizes and demonstrates the benefits of a risk based approach to internal control and management of operational risks of the bank. Meanwhile, the ORMU which functions within the purview of IRMD provides independent verification on the Bank's operational risk exposures.

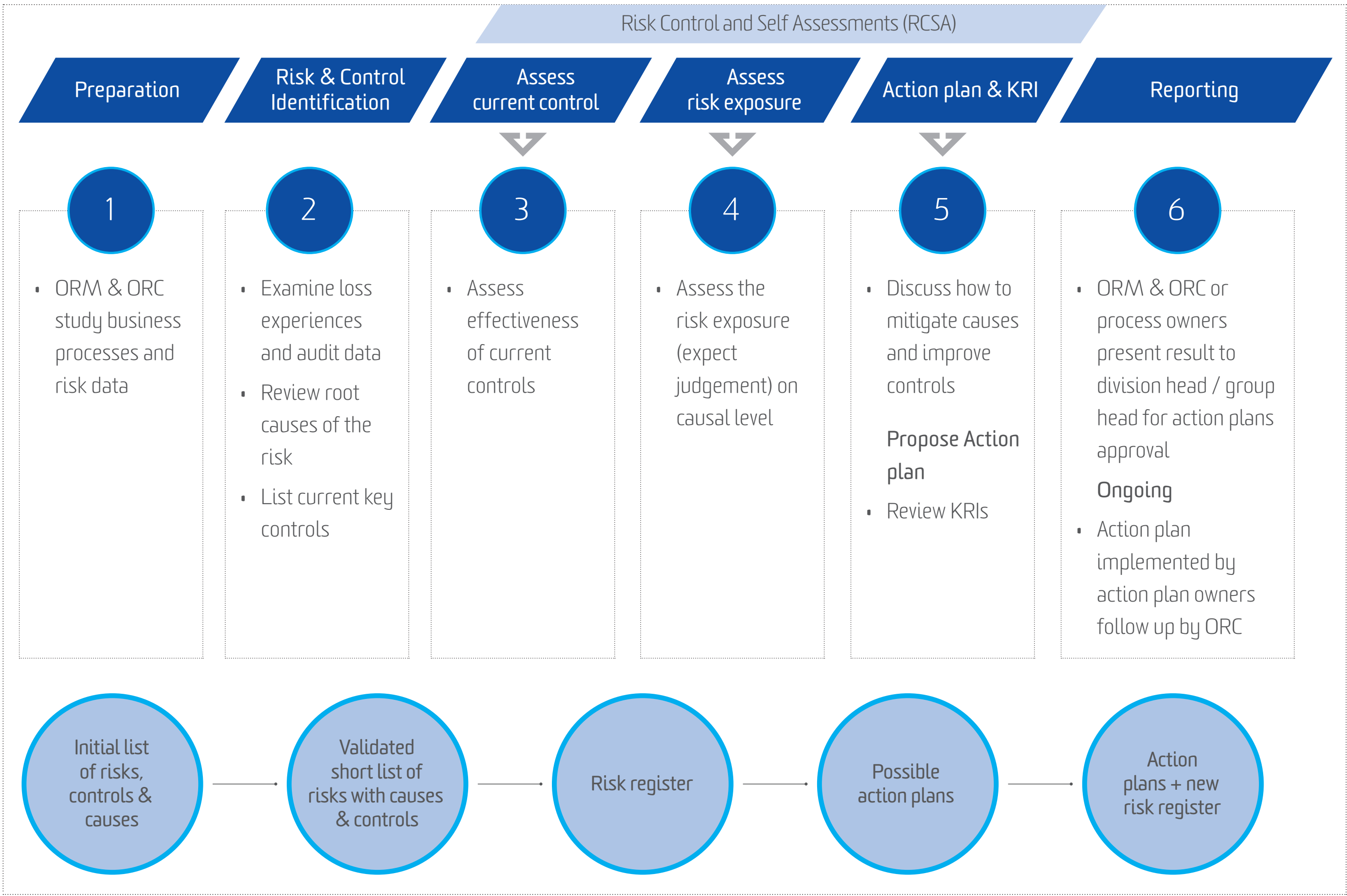
The operational risk management framework is underpinned by the following;

- Identification and assessment

The Bank uses Risk and Control Self Assessments (RCSA) which are administered to all key business and operational units to evaluate the exposure to defined operational risk parameters. It is a structured mechanism for a Business Line, Supporting Unit, Product Line or Process to identify and assess its own risks and introduce measures aimed at improving risk control. In addition, the ownership of key risks and measures introduced to mitigate unacceptable risk exposure is clearly defined.

RCSA process ranks the risks based on its likelihood of occurrence and its impact / severity if that risk materializes. It also critically tests the current controls available to address such risks in terms of its control design and control performance of risks in designing/ reviewing suitable action. Stemming from individual departmental risk grids, a bank-wide risk grid is prepared highlighting key risks impacting the bank. This overall bank risk grid is updated every other month and presented to the Board Integrated Risk Management Committee as a "Risk Assessment Report" which details the prevailing or emerging risks and its management.

The Key Risk Indicators (KRIs) being implemented will ensure that early indicators of risks are given due recognition and appropriate action is taken to reduce possible losses arising from such risks.



- **Limits and tolerance levels**

The Board of Directors have defined specific limits and tolerance levels for operational risk indicators including the number of internal and external loss events and the total value of operational losses monitored. Regular reporting to the BIRMC and Board of Directors ensure that parameters are maintained within the defined limits and corrective action is initiated if required.

- **Risk reporting**

The Bank maintains a well structured Operational Risk Loss Data Base which is aligned to the BASEL requirements. Streamlined processes are in place to capture all operational loss events including near misses, which are then categorized as specified in a BASEL document in order to use them for future modeling activities. The loss events are linked to the RCSA & KRI Programme to ensure that repeat errors are minimised.

- **Outsourced services**

The Bank outsources some of its non-critical activities including cash management, labour supply, embossing of cards, document management and archiving. To mitigate the operational risks, business units submit due diligence test grid along with the relevant documents to outsourcing services unit. Outsourcing services unit participates for the Business Continuity Plan rehearsals of service providers as well as carry out periodical visits along with the business unit, Manager - Information Security and Operational Risk Control Manager. These activities provide an assurance on the ability of service provider to maintain required levels of service at all times.

Areas of focus in 2017

- **Strengthened the RCSA mechanism:** Strengthened RCSA mechanism with the introduction of several new risk assessment grids for business and support units.

Currently the Bank maintains 37 operational risk grids for several units including newly introduced 3 operational risk grids during the year, which is a qualitative analysis of the Operational Risk tool.

- **Improved performance against operational risk appetite:** Improvement in operational losses to operating expenses ratio to 0.12% in 2017 (0.15% in 2016).
- **Increased employee engagement and awareness on "Operational Risks":** An "Operational Risk Update" group on yammer was created for all employees enabling the prompt sharing of knowledge, notifications of operational risk incidents and nurturing a risk culture across the Bank.
- **Reviewed and strengthened the DR and BCP plans:** A successful BCP and DR drill was carried by the Operational Risk Unit with the assistance of IT and identified Mission Critical Units of the Bank as per CBSL guidelines.

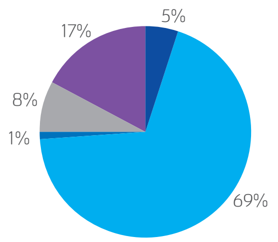
- **Increased vibrancy and proactiveness of ORMU:** During the year, the ORMU conducted regular meetings and identified risks were escalated to the relevant personnel for immediate action.

Operational Risk Performance in 2017

All operational risk indicators were maintained within the defined parameters while there were no material loss events during the year. The value of the total operational loss events remained well within risk appetite as at end of 2017.

BASEL II LOSS EVENT TYPE CATEGORY	2017 Value (000')	2017 %	2016 Value (000')	2016 %
Internal Fraud	1,098	5%	-	-
External Fraud	14,654	69%	11,424	60%
Employment Practices and Workplace Safety	-	0%	-	-
Clients Products and Business Practices	147	1%	490	3%
Damage to Physical Assets	-	-	-	-
Business Disruption and System Failure	1,708	8%	3,855	20%
Execution Delivery & Process Management	3,708	17%	3,381	18%
Total Operating Losses	21,315	100%	19,150	100%

Loss Events 2017



Strategic and Reputational Risk

Strategic risks are the potential losses arising from the possibility of the Bank's future business plans and strategies being inadequate. Strategic risks arise from external and/or internal factors and inability to respond to emerging risks and opportunities in the operating landscape.

Reputational risks are those that impact the Bank's current or prospective earnings capacity and organizational value arising from the loss of confidence, breakdown in relationships and negative perceptions of transactional stakeholders.

Strategic and reputational risks are measured using a scorecard based approach which takes into consideration a range of factors including the Bank's size, complexity and sophistication of operations, trends in the operating landscape as well as customer profiling. Effective management of the Bank's strategic and reputational risks is demonstrated by the following;

- Implementation and effective articulation of a cohesive strategic plan
- Sustainable growth in financial performance in recent years despite volatilities in the external environment
- Ranking among best corporate entities.
- The Bank's ability to attract the best talent in the industry

Capital Management

The level of the Bank's capital is aligned to the Risk Appetite and risk profile to commensurate with the strategic plan of the bank. An overview of the capital planning and assessment process is explained below.

Establishment of risk exposures and capital requirement

The capital planning process is integrated with the strategic planning process where the Bank decide the risk appetite and the risk profile based on key customer segments, products it desire to serve and on the operating model, it would like to establish.

Credit risk, market risk, liquidity risk and operational risk exposure limits are established which are primarily linked to the capital based on the risk appetite envisaged at this planning level.

The Bank calculates the risk exposures and risk weighted assets for capital adequacy purposes based on following Basel III guidelines issued by the Central Bank of Sri Lanka:

Pillar 1 risk exposures

- Credit risk - Standardized Approach
- Market risk - Standardized Approach
- Operational risk - Basic Indicator Approach

Pillar 2 risk exposures – Risks such as Residual credit risk, credit concentration risk, interest rate risk of the banking book and strategic risk are assessed based on the Internal Capital Adequacy Assessment Process (ICAAP) . This process also includes assessment of adequate capital buffers to ensure maintenance of minimum capital ratios as per regulations under unexpected, stressed economic conditions.

In addition, liquidity risk is also considered during the planning stage through liquidity stock and cash flow approaches.

Minimum capital ratios as per Central Bank regulations are as follows:

Component of Capital	01.07.2017	01.01.2018	01.01.2019
Bank Assets Less than Rs.500 billion			
Common Equity Tier 1 including Capital Conservation Buffer	5.75%	6.375%	7.00%
Total Tier 1 including Capital Conservation Buffer	7.25%	7.875%	8.50%
Total Capital Ratio including Capital Convention Buffer	11.25%	11.875%	12.50%
Bank with Assets Rs.500 billion and above			
Common Equity Tier 1 including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically important bank	6.25%	7.375%	8.50%
Total Tier 1 including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically important bank	7.75%	8.875%	10.00%
Total Capital Ratio including Capital Convention Buffer and Capital Surcharge on Domestic Systemically important Banks	11.75%	12.875%	14.00%

Appropriate capital buffers are also estimated to maintain the financial covenants set by the medium term funding agencies and to secure better entity credit rating.

The bank also assess the capital expenditure and investment requirement to support the growth and business strategy at strategic plan level and during annual budgeting cycle.

Sources of capital

The primary source of capital is through the internally generated capital. The business plans and financial plans are prepared ensuring adequate profit generation by setting appropriate targets for return on assets and capital.

The capital augmentation plan identifies the level of tier 1 and tier 2 capital requirement for the next 3-4 years. Amount of dividend distributions and mode of payment through cash and scrip dividend are decided based on this future capital requirement of the bank.

Capital allocation

Capital is allocated to business lines based on Risk Adjusted Return on Capital (RAROC) targets in order to optimize risk adjusted returns. Excess capital in subsidiary companies is also re-allocated based on this model. Capital allocation drives down further to key products and customer portfolios depending on the availability of data and management objectives.

This process ensures the efficient allocation of capital in times of divergences and unexpected events when additional capital is required.

The CRO is entrusted with identifying and assessing the risk exposures of the bank while CFO ensures the development of the capital augmentation plan to maintain the appropriate level of capital for business growth and to meet minimum regulatory standards.

The capital augmentation plan constructed at the strategic planning cycle, generally covers 3-4 year period which is updated during the annual budgeting cycle and approved by the Board of Directors.

Key highlights for the year:

1. Total capital ratio under Basel III Pillar I risks is 13.89% as at 31.12.2017 (15.82% 31.12.2016). Main reason for the decline in the ratio is due to the loan book growth of 25%. The total capital ratio including Pillar II risks is currently being assessed.
2. The board decided to raise Rs. 3.2Bn new equity capital in October 2017 and this was concluded in February 2018. The board also decided to raise Rs. 3.5Bn Basel III complaint tier 2 capital which will be concluded in March 2018. Excess capital of Rs. 1.1Bn was transferred to the Bank from Subsidiary companies by way of dividends and share buy backs.
3. Shareholder funds are increased by Rs. 0.9Bn (net of deferred tax) based on the revaluation surplus of properties. This will be considered for capital adequacy computations after CBSL approval in 2018.

Risk Management Review

Risk Regulation

BASEL III Framework

Following the introduction of BASEL III, Banks are required to enhance their capital requirements with the objective of improving the quality, quantity, consistency and transparency of the capital base. Meanwhile the Liquidity Coverage Ratio (LCR) is one of the Basel Committee's key recommendations to strengthen global liquidity regulations to nurture a more resilient banking sector and the Bank commenced parallel reporting as per the regulator's requirements. The LCR comes into effect in January 2019.

In light of changes that took place in global economic conditions and risk landscape, CBSL has shifted the risk management in banking industry to the next level. BASEL III continued to follow 3-pillar approach with considerable changes in minimum capital and capital buffer requirements, further improvements in supervisory review process and additional disclosure requirements under market discipline. The Bank has revised risk management disclosures to be better aligned with Pillar III market discipline.

Market Disclosures based on BASEL III is annexed below.

Area	No	Disclosure requirement	Reference
Regulatory requirements on capital and liquidity	1	Key Regulatory Ratios - Capital and Liquidity	Table 1
	2	Basel III Computation of Capital Ratios	Table 2
	3	Basel III Computation of Leverage Ratio	Disclosure requirements will commence from implementation of Leverage Ratio
	4	Basel III Computation of Liquidity Coverage Ratio	Table 3
	5	Main Features of Regulatory Capital Instruments	Table 4
Risk Weighted Assets	6	Summary discussion on adequacy/meeting current and future capital requirements	Capital Management Section of this review
	7	Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects	Table 5
	8	Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights	Table 6
	9	Market Risk under Standardised Measurement Method	Table 7
	10	Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach	Table 8
Linkages between Financial statements and regulatory exposures	11	Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only	Table 9
	12	Explanations of differences between accounting and regulatory exposure amounts	Table 9
Risk Management	13	Bank Risk Management Approach	Risk Management review is outlined in Sections (a) to (h) in this Review
	14	Risk Management related to key risk exposures	

Table 1

Key Regulatory Ratios - Capital and Liquidity

Item	Bank 31-Dec-2017	Group 31-Dec-2017
Regulatory Capital (LKR '000)		
Common Equity Tier 1	18,070,743	18,489,947
Tier 1 Capital	18,070,743	18,489,947
Total Capital	23,305,824	23,725,029
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 5.75%)	10.58%	10.83%
Tier 1 Capital Ratio (Minimum Requirement - 7.25%)	10.58%	10.83%
Total Capital Ratio (Minimum Requirement - 11.25%)	13.64%	13.89%
Regulatory Liquidity		
Statutory Liquid Assets		
Domestic Banking Unit (LKR'000)	46,716,976	
Off-Shore Banking Unit (LKR'000)	1,949,119	
Statutory Liquid Assets Ratio, % (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	21.13%	
Off-Shore Banking Unit (%)	21.81%	
Liquidity Coverage Ratio (%)		
Rupee (Minimum Requirement - 80%)	437.86%	
All Currency (Minimum Requirement - 80%)	204.73%	

Table 2

Basel III Computation of Capital Ratios

Item	Bank LKR '000 31-Dec-2017	Group LKR '000 31-Dec-2017
Common Equity Tier 1 (CET1) Capital after Adjustments	17,992,259	18,489,947
Common Equity Tier 1 (CET1) Capital	20,050,066	20,474,308
Equity Capital (Stated Capital)/Assigned Capital	5,101,369	5,101,369
Reserve Fund	1,010,732	1,010,732
Published Retained Earnings/(Accumulated Retained Losses)	13,813,405	14,237,647
Published Accumulated Other Comprehensive Income (OCI)	124,561	124,561
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	**1,979,323**	**1,984,361**
Goodwill (net)	-	-
Intangible Assets (net)	1,148,648	1,153,557
Shortfall of the cumulative impairment to specific provisions	830,675	830,804
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	**5,235,081**	**5,235,081**
Tier 2 Capital	**5,235,081**	**5,235,081**
Qualifying Tier 2 Capital Instruments	4,433,333	4,433,333
Revaluation Gains	-	-
Loan Loss Provisions	801,748	801,748
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
CET1 Capital	**17,992,259**	**18,489,947**
Total Tier 1 Capital	**18,070,743**	**18,489,947**
Total Capital	**23,305,824**	**23,725,029**

Basel III Computation of Capital Ratios (Contd.)

Item	Bank LKR '000 31-Dec-2017	Group LKR '000 31-Dec-2017
Total Risk Weighted Assets (RWA)	170,838,077	170,758,045
RWAs for Credit Risk	148,307,874	148,298,015
RWAs for Market Risk	3,369,857	3,369,857
RWAs for Operational Risk	19,160,347	19,090,174
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	10.58%	10.83%
of which: Capital Conservation Buffer (%)	1.25%	1.25%
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	10.58%	10.83%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	13.64%	13.89%
of which: Capital Conservation Buffer (%)	1.25%	1.25%
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-

Table 3

Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	Total Un-weighted Value LKR '000 31-Dec-2017	Total Weighted Value LKR '000 31-Dec-2017
Total Stock of High-Quality Liquid Assets (HQLA)	5,612,196	44,346,947
Total Adjusted Level 1A Assets	5,907,694	44,653,640
Level 1 Assets	5,589,806	44,335,752
Total Adjusted Level 2A Assets	-	-
Level 2A Assets	-	-
Total Adjusted Level 2B Assets	22,390	11,195
Level 2B Assets	22,390	11,195
Total Cash Outflows	341,589,345	48,762,072
Deposits	170,687,377	17,068,738
Unsecured Wholesale Funding	25,136,013	14,213,421
Secured Funding Transactions	1,552,809	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	136,084,637	9,351,406
Additional Requirements	8,128,508	8,128,508
Total Cash Inflows	50,768,980	27,100,956
Maturing Secured Lending Transactions Backed by Collateral	10,879	-
Committed Facilities	1,000,000	-
Other Inflows by Counterparty which are Maturing within 30 Days	49,679,518	27,022,374
Operational Deposits	-	-
Other Cash Inflows	78,583	78,583
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100		205%

Table 4

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Ordinary Shares	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)
Issuer	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	LK0309N00001	NTB/ BC/19/12/18A13	NTB-BD-08/11/21-C2365-12.65	NTB-BD-08/11/21-C2364-12.8	NTB-BD-08/11/21-C2363
Governing Law(s) of the Instrument	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
Original Date of Issuance	3-May-99	19-Dec-13	8-Nov-16	8-Nov-16	8-Nov-16
Par Value of Instrument	22.12	100	100	100	100
Perpetual or Dated	Perpetual	Dated	Dated	Dated	Dated
Original Maturity Date, if Applicable	N/A	19-Dec-18	8-Nov-21	8-Nov-21	8-Nov-21
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	5,101,369	750,000	3,173,403	907,962	1,968
Accounting Classification (Equity/Liability)	Equity	Liability	Liability	Liability	Liability
Issuer Call subject to Prior Supervisory Approval	-	-	-	-	-
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	N/A	N/A	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A	N/A	N/A
Coupons/Dividends					
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Fixed	Fixed	Fixed	Floating
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend	13.00%	12.65%	12.80%	11.61%
Non-Cumulative or Cumulative	Non-Cumulative	Non cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	**Non-Convertible**	**Non-Convertible**	**Non-Convertible**	**Non-Convertible**	**Non-Convertible**
If Convertible, Conversion Trigger (s)	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible
If Convertible, Fully or Partially	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible
If Convertible, Mandatory or Optional	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible
If Convertible, Conversion Rate	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible

Table 5

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	Bank LKR'000 as at -31-Dec-17						Group LKR'000 as at -31-Dec-17					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)		Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWA	RWA Density (ii)	On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWA	RWA Density (ii)
Claims on Central Government and CBSL	25,012,852	1,535,200	25,012,852	30,704	810,733	3%	25,083,896	1,535,200	25,083,896	30,704	810,733	3%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	0%	-	-	-	-	-	0%
Claims on Public Sector Entities	-	-	-	-	-	0%	-	-	-	-	-	0%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	0%	-	-	-	-	-	0%
Claims on Banks Exposures	2,209,944	35,763,085	2,209,944	715,262	1,478,649	51%	2,209,976	35,763,085	2,209,976	715,262	1,478,656	51%
Claims on Financial Institutions	11,083,386	3,261,851	11,083,386	1,090,246	6,009,478	49%	11,083,386	3,261,851	11,083,386	1,090,246	6,009,478	49%
Claims on Corporates	40,210,503	70,005,792	40,210,503	6,716,499	45,681,542	97%	40,419,373	68,461,963	40,419,373	6,716,499	45,890,411	97%
Retail Claims	102,643,879	65,643,745	102,643,879	2,632,706	81,079,256	77%	102,643,879	65,643,745	102,643,879	2,632,706	81,079,256	77%
Claims Secured by Residential Property	7,827,956	-	7,827,956	-	5,577,770	71%	7,827,956	-	7,827,956	-	5,577,770	71%
Claims Secured by Commercial Real Estate	833,791	174,554	833,791	34,911	868,702	100%	833,791	174,554	833,791	34,911	868,702	100%
Non-Performing Assets (NPAs)(i)	2,117,558	-	2,117,558	-	2,847,324	134%	2,117,558	-	2,117,558	-	2,847,324	134%
Higher-risk Categories	25,803	-	25,803	-	64,507	250%	-	-	-	-	-	0%
Cash Items and Other Assets	10,703,170	-	10,703,170	-	3,889,914	36%	10,548,964	-	10,548,964	-	3,735,685	35%
Total	202,668,842	176,384,227	202,668,842	11,220,328	148,307,874	69%	202,768,778	174,840,397	202,768,778	11,220,328	148,298,015	69%

Note:

(i) NPAs - As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning.

(ii) RWA Density - Total RWA/Exposures post CCF and CRM.

Table 6

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Description	Bank LKR'000 as at 31-Dec-2017 (Post CCF & CRM)							
Risk Weight Asset Classes	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	20,989,891	4,053,665	-	-	-	-	-	25,043,556
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	935,660	1,396,058	-	593,488	-	-	2,925,206
Claims on Financial Institutions	-	2,331,815	8,597,405	-	1,244,412	-	-	12,173,632
Claims on Corporates	-	-	2,490,921	-	44,436,081	-	-	46,927,002
Retail Claims	142,175	117,118	-	94,489,569	10,527,723	-	-	105,276,585
Claims Secured by Residential Property	-	-	4,500,372	-	3,327,584	-	-	7,827,956
Claims Secured by Commercial Real Estate	-	-	-	-	868,702	-	-	868,702
Non-Performing Assets (NPAs)	-	-	35,775	-	586,476	1,495,307	-	2,117,558
Higher-risk Categories	-	-	-	-	-	-	25,803	25,803
Cash Items and Other Assets	5,589,806	1,529,313	-	-	3,584,052	-	-	10,703,171
Total	26,721,872	8,967,571	17,020,531	94,489,569	65,168,518	1,495,307	25,803	213,889,171

Description	Group LKR'000 as at 31-Dec-2017 (Post CCF & CRM)							
Risk Weight Asset Classes	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	21,060,935	4,053,665	-	-	-	-	-	25,114,600
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	935,692	1,396,058	-	593,488	-	-	2,925,238
Claims on Financial Institutions	-	2,331,815	8,597,405	-	1,244,412	-	-	12,173,632
Claims on Corporates	-	-	2,490,921	-	44,644,951	-	-	47,135,872
Retail Claims	142,175	117,118	-	94,489,569	10,527,723	-	-	105,276,585
Claims Secured by Residential Property	-	-	4,500,372	-	3,327,584	-	-	7,827,956
Claims Secured by Commercial Real Estate	-	-	-	-	868,702	-	-	868,702
Non-Performing Assets (NPAs)	-	-	35,775	-	586,476	1,495,307	-	2,117,558
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	5,589,829	1,529,313	-	-	3,429,823	-	-	10,548,965
Total	26,792,939	8,967,603	17,020,531	94,489,569	65,223,159	1,495,307	-	213,989,108

Table 7

Market Risk under Standardised Measurement Method

Item	Bank RWA LKR'000 31-Dec-2017	Group RWA LKR'000 31-Dec-2017
(a) RWA for Interest Rate Risk	357,831	357,831
General Interest Rate Risk	357,831	357,831
(i) Net Long or Short Position	357,831	357,831
(ii) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
(b) RWA for Equity	-	-
(i) General Equity Risk	-	-
(ii) Specific Equity Risk	-	-
(c) RWA for Foreign Exchange & Gold	21,278	21,278
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	3,369,857	3,369,857

Table 8

Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach

Business Lines	Bank					Group				
	Capital Charge Factor	Fixed Factor	Gross Income LKR'000 as at 31-Dec-2017			Capital Charge Factor	Fixed Factor	Gross Income LKR'000 as at 31-Dec-2017		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		12,271,650	13,217,046	17,622,084	15%		12,519,408	13,519,915	16,913,568
The Standardised Approach			-	-	-			-	-	-
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%		-	-	-	12%		-	-	-
Commercial Banking	15%		-	-	-	15%		-	-	-
The Alternative Standardised Approach			-	-	-			-	-	-
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%	0.035	-	-	-	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-	15%	0.035	-	-	-

Table 8 (Contd.)

Business Lines	Bank					Group				
	Capital Charge Factor	Fixed Factor	Gross Income LKR'000 as at 31-Dec-2017			Capital Charge Factor	Fixed Factor	Gross Income LKR'000 as at 31-Dec-2017		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
Capital Charges for Operational Risk (LKR'000)										
The Basic Indicator Approach	2,155,539					2,147,645				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	19,160,347					19,090,174				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				

Table 9

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only

Item	LKR '000 as at 31-Dec-2017				
	a Carrying Values as Reported in Published Financial Statements	b Carrying Values under Scope of Regulatory Reporting	c Subject to Credit Risk Framework	d Subject to Market Risk Framework	e Not subject to Capital Requirements or Subject to Deduction from Capital
Assets	267,886,669	267,020,879	203,100,513	39,373,435	25,348,679
Cash and Cash Equivalents	6,867,222	6,845,330	6,845,330	-	-
Balances with Central Banks	11,193,266	11,193,266	11,193,266	-	-
Placements with Banks	10,798	20,000	20,000	-	-
Derivative Financial Instruments	230,217	-	-	-	-
Other Financial Assets Held-For- Trading	521,389	39,373,435	-	39,373,435	-
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-
Loans and Receivables to Banks	-	-	-	-	-
Loans and Receivables to Other Customers	186,536,711	186,319,799	162,921,516	-	24,200,031
Financial Investments - Available- For-Sale	38,852,046	-	-	-	-
Financial Investments - Held-To- Maturity	16,676,997	16,536,910	16,536,910	-	-
Investments in Subsidiaries	678,710	678,710	678,710	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	2,584,302	1,647,314	1,647,314	-	-
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	1,148,648	-	-	-	-
Deferred Tax Assets	692,887	-	-	-	-
Other Assets	1,893,476	4,406,115	3,257,467	-	1,148,648

Table 9 (Contd.)

Item	a Carrying Values as Reported in Published Financial Statements	b Carrying Values under Scope of Regulatory Reporting	c Subject to Credit Risk Framework	d Subject to Market Risk Framework	e Not subject to Capital Requirements or Subject to Deduction from Capital
	LKR '000 as at 31-Dec-2017				
Liabilities	**247,078,935**	**247,656,914**	**-**	**-**	**-**
Due to Banks	10,713,864	12,952,504	-	-	-
Derivative Financial Instruments	495,517	-	-	-	-
Other Financial Liabilities Held-For- Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Other Customers	194,296,718	189,996,084	-	-	-
Other Borrowings	23,981,411	21,541,013	-	-	-
Debt Securities Issued	-	-	-	-	-
Current Tax Liabilities	803,249	-	-	-	-
Deferred Tax Liabilities	2,430,398	-	-	-	-
Other Provisions	-	-	-	-	-
Other Liabilities	6,282,426	15,167,313	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	8,075,352	8,000,000	-	-	-
Off-Balance Sheet Liabilities	**173,012,919**	**183,569,861**	**181,245,306**	**-**	**2,324,555**
Guarantees	273,149	273,149	273,149	-	-
Performance Bonds	13,020,279	13,020,279	11,781,257	-	1,239,022
Letters of Credit	6,753,029	6,753,029	6,208,357	-	544,672
Other Contingent Items	4,440,615	4,438,730	4,438,730	-	-
Undrawn Loan Commitments	110,327,377	107,395,573	107,395,573	-	-
Other Commitments	38,198,470	51,689,101	51,148,240	-	540,861
Shareholders' Equity	-	-	-	-	-
Equity Capital (Stated Capital)/Assigned Capital	5,101,369	5,101,369	-	-	-
of which Amount Eligible for CET1	5,101,369	5,101,369	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	13,813,401	13,466,196	-	-	-
Accumulated Other Comprehensive Income	207,600	-	-	-	83,040
Other Reserves	1,685,365	796,400	-	-	674,631
Total Shareholders' Equity	**20,807,735**	**19,363,965**	**-**	**-**	**757,671**

Notes:

1) Differences in Held for Trading, Available for Sale, Intangible Assets, Other Assets, Due to Banks, Due to Customers, Other Borrowings, Current Tax Liabilities, Deferred Tax Liabilities and Other Liabilities is due to Classification differences.

2) Difference in Shareholder's Equity is due to profit difference in SLAS and SLFRS accounting standards.

3) Differences in Other Commitments is due to Notional Value of Derivative contracts reported in Published Financial Statements (a) and Carrying Value reported in Regulatory Reporting (b).